

**Management Advisory Report: The Internal
Revenue Service's Federal Financial
Management Improvement Act Remediation
Plan Complies With Reporting Requirements**

March 2002

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 27, 2002

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report – The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan Complies With Reporting Requirements (Audit # 200210010)

This report presents the results of our review of the Internal Revenue Service's (IRS) Federal Financial Management Improvement Act (FFMIA)¹ remediation plan to identify any instances and reasons for missed intermediate target dates and to evaluate, in general, whether the IRS is meeting its responsibilities in fulfilling the intent of the FFMIA. The review was performed to meet our requirement under the FFMIA that states, in general, that each Inspector General shall report to the Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan.

In summary, we found no instances where the IRS did not meet established intermediate target dates contained in the remediation plan, but we did identify where intermediate target dates were extended with explanations. Also, the IRS received required Office of Management and Budget (OMB) concurrence for remedial actions with intermediate target dates that extend longer than 3 years, incorporated all General Accounting Office (GAO) financial statement audit recommendations pertinent to the FFMIA guidelines into its remediation plan, and has taken actions to reconcile inconsistencies between GAO and IRS reported status of remedial actions. The IRS has also taken positive steps to implement corrective actions addressing prior Treasury Inspector General for Tax Administration recommendations.

¹ 31 U.S.C 3512 (2001).

Management's Comments: Since this report contains no recommendations, we did not require a formal response from the IRS. However, in reaction to an advance copy of the report, the IRS commented that it is working very hard to bring the remediation plan into compliance with the requirements of the FFMIA, the OMB, and the Department of the Treasury guidelines, and is working to align the remediation plan more closely with Federal Managers' Financial Integrity Act of 1982² control weaknesses; to enhance reporting of resources needed and resources approved; and, to identify specific financial systems deficiencies with the appropriate actions.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

² 31 U.S.C. §§1105, 1113, and 3512 (1994 and Supp. IV 1998).

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Background

The Federal Financial Management Improvement Act of 1996 (FFMIA)¹ establishes in statute certain financial management systems requirements that were already established by Executive Branch policies. It was intended to advance Federal financial management by ensuring that Federal management systems can and do provide reliable, consistent disclosure of financial data. This should be done on a basis that is uniform across the Federal government from year to year, by consistently using professionally accepted accounting standards. Specifically, section 803 (a) of the FFMIA requires each agency to implement and maintain systems that comply substantially with:

- Federal financial management system requirements.
- Applicable Federal accounting standards.
- The Standard General Ledger at the transaction level.

Auditors are required to report on agency compliance with the three stated requirements as part of financial statement audit reports; and agency heads are required to determine, based on the audit report and other information, whether their financial management systems comply with the FFMIA. If the agency does not comply, it is required to develop remediation plans that describe the resources, remedies, and intermediate target dates for achieving compliance, and file the plans with the Office of Management and Budget (OMB).

In addition, section 804 (b) requires that the Inspector General shall report to the Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan.

The General Accounting Office (GAO) reported numerous internal control weaknesses in its audits of the Internal Revenue Service's (IRS) annual financial statements. Due to these weaknesses, the IRS is noncompliant with the FFMIA and is required to prepare a remediation plan.

¹ 31 U.S.C. § 3512 (2001).

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No Instances of Missed Target Dates Were Found, But Target Dates Were Extended

Review work was performed at IRS Headquarters in the office of the Chief Financial Officer, which is responsible for monitoring and implementing the remediation plan, during the period December 2001 through February 2002. The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The IRS' December 31, 2001, remediation plan listed 49 open remedial actions. All had established intermediate target dates. No instances were identified where the IRS did not meet an established intermediate target date contained in the remediation plan. However, we did identify where intermediate target dates were extended for 19 remedial actions during the past 5 quarterly reports.

A comparison was made of the IRS' December 31, 2001, remediation plan to the prior four quarters' remediation plans. During that period, the IRS extended 19 of the 49 open remedial action intermediate target dates. Thirteen intermediate target dates were extended once and 5 intermediate target dates were extended twice during the 5 quarters under review. The remaining intermediate target date was extended, but later decreased.

Eight of the 19 remedial actions with intermediate target date extensions are to be remedied by the deployment of 3 key modernization projects. Originally established intermediate target dates for these eight remedial actions were extended to reflect the date in the integrated master schedule approved by the Core Business Systems Executive Steering Committee. These projects include the Integrated Financial System,² Customer Account Data Engine,³ and Custodial Accounting Project.⁴

² The Integrated Financial System project will implement a Commercial-Off-The-Shelf package, which is JFMIP-certified, and addresses the IRS' financial and revenue accounting, property, and procurement processes.

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Office of Management and Budget Concurrence Was Received for Target Dates Extending Longer Than Three Years

The reasons documented for extending the intermediate target dates for the remaining 11 remedial actions include potential reorganization of the Modernization/Information Technology Services, funding for additional staff, re-designing or deployment of information technology systems, developing a baseline quality measurement, and the need for additional time to mitigate security control weaknesses in IRS posts-of-duty.

The FFMIA requires that a remediation plan shall bring an agency's financial management systems into substantial compliance no later than 3 years after the date a determination is made that the financial management systems do not comply with the requirements of the FFMIA unless the agency, with concurrence of the Director of OMB:

- Determines that the agency's financial management systems cannot comply with the requirements within 3 years.
- Specifies the most feasible date to bring the agency's financial management systems into compliance with the requirements.
- Designates an agency official who shall be responsible for bringing the agency's financial management systems into compliance with the requirements.

Currently the IRS remediation plan has 22 open remedial actions with intermediate target dates that extend longer than 3 years.

On March 30, 2001, the IRS requested and received, through the Department of the Treasury, concurrence from the OMB for time extensions on remedial actions in excess of 3 years. As part of the OMB concurrence, the IRS is required to hold quarterly status review sessions as a method of measuring performance against identified remedial actions.

³ The Customer Account Data Engine is an integrated information system to manage taxpayer's account and return data.

⁴ The Custodial Accounting Project is an integrated information system to analyze and report on taxpayer account and return data.

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Each quarter the IRS' Office of Management Controls (OMC) receives updates for each open remedial action from responsible functional areas. A template is provided, which uses a format recommended by the Department of the Treasury. The requested information includes:

- Overview of the FFMIA findings.
- Accomplishments during the quarter.
- Due date slippage.
- Planned actions for the current quarter.
- Impediments to success and what is needed to address them.
- Funding requirements and issues.

Starting with the Fiscal Year (FY) 2001 third quarter remediation plan, the IRS submitted to the OMB and the Department of the Treasury a summary update of open custodial and administrative remedial actions. All extended intermediate target dates after March 30, 2001, were identified and reported to the OMB in the IRS' quarterly summary updates.

The Remediation Plan Contained Applicable General Accounting Office Recommendations

On January 4, 2001, the OMB issued revised implementation guidance for the FFMIA. The revised guidance states that Federal agencies must comply, and agency auditors must report whether the agency's financial management systems substantially comply, with applicable Federal financial management systems requirements, applicable Federal accounting standards, and the Government Standard General Ledger. The Federal Accounting Standard Advisory Board standards, incorporated in the OMB's Bulletin, *Form and Content*, are the applicable accounting standards for the Federal government; and, the OMB Circular A-127, *Financial Management Systems*, is the source of Federal financial management systems requirements.

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Actions Were Taken to Deal With Inconsistent Classification of Open and Closed Remedial Actions and Remedial Action Target Dates

The GAO reported 52 new recommendations in 3 reports⁵ pertaining to its FYs 1999 and 2000 financial statement audits. All recommendations pertinent to the January 4, 2001, FFMIA guidelines were incorporated into the IRS' remediation plan.

In GAO's report, *IRS Progress Made, but Further Actions Needed to Improve Financial Management* (GAO-02-35, October 2001), it reported the status of recommendations from prior IRS financial statement audits and related financial management reports. At the time the report was issued, the GAO closed 24 of 85 previously open recommendations. The GAO closed the recommendations because the IRS had addressed the weaknesses or because the recommendations were superseded by updated or more detailed recommendations.

Of the remaining 61 open recommendations as reported by the GAO, 29 were reported by the IRS as closed in its December 31, 2001, remediation plan. However, the GAO continued to report problems or errors for 17 of the 29 recommendations as a result of its FY 2000 financial statement audit and stated that it would continue to monitor and evaluate the remedial actions during the FY 2001 financial statement audit. The problems or errors continued to occur because guidance issued by the IRS was not always consistently followed. If the GAO, during its financial statement audits, finds any instances of previously reported problems occurring, it will not close the related audit recommendation.

The IRS has recognized the significance of inconsistent classification of open and closed remedial actions and has taken actions to minimize the impact of such inconsistencies. The IRS' OMC stated that the IRS meets with the GAO and the Department of the Treasury to reconcile identified inconsistencies. The functional area

⁵ *IRS Recommendations to Improve Financial and Operational Management* (GAO-01-42, dated November 2000), *Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls* (GAO-01-880R, dated July 2001), and *IRS Progress Made, but Further Actions Needed to Improve Financial Management* (GAO-02-35, dated October 2001).

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responsible for the remedial action must justify why the remedial action was closed, or a determination is reached on initiating a new remedial action.

Financial management weaknesses reported by the GAO as a result of its annual financial statement audits were contained in both the IRS' FFMIA remediation plan and the IRS' Annual Assurance Statement in accordance with prescribed Department of the Treasury guidance. However, a comparison of these two documents identified one open remedial action, contained in the IRS' draft Annual Assurance Statement, that had a different target date than that reported in the FFMIA remediation plan. The OMC agreed the date should be as reported in the remediation plan and will update the Annual Assurance Statement prior to its finalization.

Corrective Actions Were Implemented on Prior Treasury Inspector General for Tax Administration Recommendations

The Treasury Inspector General for Tax Administration (TIGTA) reported, in two prior audit reports,⁶ various recommendations to improve the IRS' remediation plans. These recommendations included actions to:

- Clearly include all GAO reported weaknesses in the remediation plan as warranted.
- Identify intermediate target dates for all remedial actions.
- Request OMB concurrence for remedial actions exceeding the 3-year time frame.
- Identify the resource needs to fully implement all remedial actions.
- Independently verify revised intermediate target dates and monitor accomplishment dates for remedial actions that have intermediate target dates in subsequent fiscal years.
- Independently verify and/or test completed remedial actions.

⁶ *Improvements Are Needed in the IRS' FFMIA Remediation Plan* (Reference Number 2000-10-105, dated August 2000), and *Improvements Can Be Made to the IRS' FFMIA Remediation Plan Process* (Reference Number 2001-10-93, dated June 2001).

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Internal Revenue Service Management's Comments

The IRS has taken positive steps to implement corrective actions addressing the TIGTA reported recommendations.

Since this report contains no recommendations, we did not require a formal response from the IRS. However, in reaction to an advance copy of the report, the IRS commented that it is working very hard to bring the remediation plan into compliance with the requirements of the FFMIA, the OMB, and the Department of the Treasury guidelines.

The IRS also commented that, with the Department of the Treasury's encouragement, it is working to align the remediation plan more closely with Federal Managers' Financial Integrity Act of 1982⁷ control weaknesses; to enhance reporting of resources needed and resources approved; and, to identify specific financial systems deficiencies with the appropriate actions. The proposed plan will allow easy identification of problems by subject matter, provide more definitive information relating to systems' deficiencies and resources, and reduce reporting procedure workloads for the functions. The proposed plan will continue to address specific GAO recommendations related to compliance with the FFMIA.

⁷ 31 U.S.C. §§1105, 1113, and 3512 (1994 and Supp. IV 1998).

Detailed Objectives, Scope, and Methodology

The overall objective of this review was to identify any instances and reasons for missed intermediate target dates established in the Internal Revenue Service's (IRS) remediation plan as required by the Federal Financial Management Improvement Act (FFMIA).¹ We also evaluated, in general, whether the IRS is meeting its responsibilities in fulfilling the intent of the FFMIA. Our review did not evaluate the appropriateness of IRS remedial actions. To accomplish our objectives, we:

- I. Determined whether the IRS missed any intermediate target dates established in its remediation plan, and whether proper approval was obtained for remedial actions extending longer than 3 years.
 - A. Verified that all remedial actions had intermediate target dates established.
 - B. Identified instances where the IRS did not meet established intermediate target dates.
 - C. Compared the most recent IRS remediation plan to the prior four quarters' plans to identify intermediate target dates that have changed since the previous Treasury Inspector General for Tax Administration (TIGTA) review and obtained documentation to support the change.
 - D. Identified any intermediate target dates that extended longer than 3 years since the recommendation was reported.
 - E. Verified that approval was requested from the Office of Management and Budget (OMB) for identified intermediate target dates in excess of 3 years.
- II. Determined whether the IRS' remediation plan was consistent with General Accounting Office (GAO) recommendations from prior IRS financial audits and related financial management reports.
 - A. Identified financial management recommendations meeting FFMIA criteria from the following GAO reports: *IRS Progress Made, but Further Actions Needed to Improve Financial Management* (GAO-02-35, dated October 2001), *Financial Audit IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, dated March 2001), *IRS, Recommendations to Improve Financial and Operational Management* (GAO-01-42, dated November 2000), and *Management Letter: Improvements Needed in IRS'*

¹ 31 U.S.C. § 3512 (2001).

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Accounting Procedures and Internal Controls (GAO-01-880R, dated July 2001).

- B. Mapped the GAO recommendations to the December 31, 2001, IRS remediation plan to identify recommendations not included in the plan.
 - C. Compared the GAO reported status of recommendations to those as reported by IRS in its remediation plan.
 - D. Compared the IRS' 2001 Annual Assurance Statement Corrective Action Plan to the remediation plan.
 - E. Inquired of IRS officials the reasons for any identified inconsistencies.
- III. Determined whether corrective actions were implemented for prior TIGTA audit recommendations concerning the IRS' remediation plan.
- A. Verified that all GAO recommendations were included in the remediation plan where warranted.
 - B. Verified that intermediate target dates were identified for all remedial actions and that intermediate target dates in excess of 3 years reflected OMB concurrence.
 - C. Verified that resource requirements were identified for all remedial actions.
 - D. Verified that the Chief Financial Officer's (CFO) office was performing independent verifications of completed remedial actions.
 - E. Verified that the CFO's office was performing independent verifications of revised intermediate target dates.
 - F. Verified that the CFO's office was monitoring accomplishment dates for remedial actions that have intermediate target dates in subsequent years.

Major Contributors to This Report

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Appendix III

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